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SUBJECT: THE EMPLOYER STRIKES BACK: HYUNDAI SUES ITS UNION

REF: 06 SEOUL 4194

SUMMARY

1. (SBU) After a year during which Hyundai Motors recorded an estimated 1.8 billion dollars in lost sales due to labor disruptions, management decided to reduce the amount of year-end bonuses for its workers and only pay 100 percent of a month's salary as opposed to the typical 150 percent. During the annual New Year's ceremony on January 3, outraged workers clashed with security guards and assaulted Ulsan plant manager Yoon Yeo-chul. Hyundai responded by filing civil suits against 26 union members for their actions on January 3 and ongoing labor slowdowns that have further impacted production levels. Neither side is showing any sign of backing down as union members rallied at the Hyundai Corporate headquarters in Seoul on January 10 and further threatened to hold massive walkouts next week.

A YEAR OF DISCONTENT

2. (U) Hyundai's union went on strike 13 times in 2006, causing production losses of 1.6 trillion won (1.8 billion dollars), the highest annual strike damage in the company's history. Hyundai management alleges that they met with union officials in mid-2006 and agreed to cut bonuses if they did not meet production targets. The union claims that the automaker made an oral promise to pay the 150 percent bonus regardless of the production target. In late December, the automaker decided that it would only pay the 100 percent bonus as production only reached 98 percent of the annual target. As word of the reduced bonus reached workers, they immediately went into a slow down, refusing to work overtime or weekends. Since the slow down began on December 28, the company has already recorded lost production of 7,752 cars worth an estimated 120 billion won.

3. (U) The situation further escalated on January 3 during the annual opening ceremony to mark the start of production in the New Year. Union members first tried to prevent Hyundai executives and superintendents from entering the hall where the ceremony was being held. While Vice President Kim Dong-jin delivered his speech, workers began spraying fire extinguishers and disrupted the event. A scuffle ensued where ten security guards were injured and plant manager Yoon Yeo-chul was assaulted by union leader Park Yoo-ki. Days later, Hyundai announced it was filing a one billion won lawsuit (1.1 million dollars) against 26 union members

involved in the January 3 incident and who were responsible for the initiating the work slow down. Hyundai has filed suit against its union nine times since 2000 but most were later withdrawn. Vice Chairman Kim Dong-jin said "We will never withdraw this suit. We will make the union take responsibility and pay compensation."

14. (U) At a rally in front of Hyundai Motors Headquarters in Seoul on January 10, the union demanded that Hyundai pay the remainder of the bonus or face widespread strikes beginning on January 15. At his regular press briefing, Labor Minister Lee Sang-soo threatened "stern legal action" if the union decides to hold an illegal strike. Hyundai also responded firmly to the union's threat by saying the protestors would be fined three days' pay for taking a collective day off without permission.

KCTU CALLS FOR AN APOLOGY

15. (U) The typically radical umbrella organization, Korean Confederation of Trade Unions or KCTU, spoke out in support of Hyundai and said that the union members should apologize for disrupting the New Year's celebration. Some speculate that KCTU's comments were motivated by a heightened awareness that the public is frustrated with militant labor actions and the ripple effect they have on the local community. KCTU did not fully back away from its support of the union members and argued that workers should receive at least 50 percent of the unpaid bonus and cancel the pending lawsuit.

BLEMISH ON THE HYUNDAI NAME

16. (SBU) A recent editorial expressed a growing national concern as a result of the labor unrest at Hyundai. Recognizing that Hyundai is one of only a few Korean companies with global recognition, the author was concerned that damage to the brand name could have significant impacts on the already struggling Korean economy. An anonymous posting on a Korean web portal said that consumers may be less likely to trust a product that was manufactured amid such a contentious relationship between management and labor, calling into question the quality of work being performed by disgruntled workers. Despite these public concerns, Hyundai announced on January 2 that it plans to sell 9.4 percent more vehicles this year by stepping up production at overseas plants in China and the U.S.

COMMENT

17. (SBU) The Hyundai situation sheds light on a number of issues that are not unique to this company or this industry. Concerns about the relatively high cost of Korean workers and rigid labor laws are often cited as major stumbling blocks for foreign investors when considering investments in Korea. While labor unions try to remain viable amid growing public criticism and increasingly tighter government controls (reftel), they may be more likely to take a softer line in the media to help improve their image. KCTU is scheduled to elect a new president this month. The public will take note of who is elected to replace the current president, considered a moderate, as it will likely be a decision that has a broad impact on labor relations throughout Korea. The general public is less likely to tolerate radical labor actions in the coming year following a year when the media and public both regarded violent labor actions as irresponsible and unnecessary.

VERSHBOW